

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 PM-05 H-01
INR-10 L-03 PA-01 SP-02 SS-15 EB-08 COME-00
TRSE-00 OMB-01 XMB-02 FRB-03 AID-05 /092 W
-----008259 211204Z /11

R 211045Z JUL 78
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 8809
INFO AMEMBASSY ATHENS
AMEMBASSY MANAMA
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
USMISSION USUN NEW YORK

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E.O. 11652: N/A
TAGS: EALR, EFIN, LE
SUBJ: LEBANON: US BANK ATTITUDES TOWARD PRIVATE SECTOR

REF: BEIRUT 3833

1. SUMMARY: US BANKS HAVE REDUCED ACTIVITIES IN LEBANON
PENDING FURTHER DEVELOPMENTS IN POLITICAL SITUATION. END
SUMMARY.
2. IN RESPONSE TO FIGHTING JULY 1-5, WHICH BANKERS REGARD
AS MOST SEVERE OF THREE OUTBREAKS THAT HAVE OCCURRED IN
1978, US BANKS IN LEBANON HAVE TAKEN SOME OR ALL OF FOLLOWING
STEPS:
 - A. SENT DEPENDENTS OF EXPATRIATE PERSONNEL OUT OF LEBANON;
 - B. ACCELERATED OR LIBERALIZED SUMMER LEAVE PLANS FOR
EXPATRIATE OFFICERS;
 - C. ACTIVATED EMERGENCY OR BRANCH OFFICES OUTSIDE THE
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- DOWNTOWN AREA TO MAINTAIN CUSTOMER SERVICES NORMALLY AVAIL-
ABLE AT MAIN OFFICES;
- D. RESTRICTED OR REFUSED NEW LOANS BUSINESS REGARDLESS
OF MERITS;
 - E. RESTRICTED OR REFUSED LARGE-SCALE DRAWDOWNS ON EXIS-
TING LOAN AGREEMENTS AND IMPOSED TIGHT REIN ON CUSTOMER
RECOURSE TO OVERDRAFT FACILITIES;

F. INITIATED PORTFOLIO REVIEWS OR OTHER INTERNAL PROCESSES
LEADING TO REASSESSMENT OF BANK POSTURE IN LEBANON;

G. INCREASED CONTACT WITH EMBASSY, KEYING PARTICULARLY
ON EMBASSY POLICY RE OFFICIAL DEPENDENTS.

3. RECENT CONVERSATIONS WITH BANKERS INDICATE THAT MOST
BANKS EXPERIENCED MODERATE CASH DRAIN IN FIRST DAYS OF
FIGHTING. AFTER THIRD OR FOURTH DAY THIS REVERSED ITSELF,
ESPECIALLY IN EASTERN SUBURBS, INCLUDING RIBAYAH AND
JAL ED-DIB, AS INDIVIDUALS AND COMPANIES SOUGHT TO PLACE
FUNDS IN BANK VAULTS FOR SECURITY REASONS. ONE BANK REPORTED
A SINGLE CLIENT PRESENTATION FOR DEPOSIT OF LL ONE MILLION;
ANOTHER OF LL THREE MILLION IN CASH. BANKS HAD TO BARGAIN
WITH CLIENTS NOT TO ACCEPT THESE FUNDS FOR THREE REASONS:
THEIR BRANCH VAULTS ARE NOT SECURE ENOUGH FOR SUCH SUMS;
THEIR INSURANCE RESTRICTS OVERNIGHT VAULT CASH TO A MINIMUM;
BEING CUT OFF FROM THE CENTRAL BANK, THEY COULD NOT TRANSFER
CASH TO ITS VAULTS. ELOQUENT OF LAW AND ORDER CONDITIONS IN
THE EAST IS STATEMENT BY MORGAN GUARANTY OFFICER THAT THE
EMPLOYEES OF ANY COMPANY TRANSFERRING SUCH SUMS TO A BRANCH
FOR DEPOSIT WOULD KNOW OF THE TRANSFER AND COULD ARRANGE
EITHER THEMSELVES OR THROUGH MILITIA FRIENDS TO HAVE THE
BRANCH ROBBED THE SAME NIGHT. IT IS NOT AN IMPLAUSIBLE
SCENARIO. (WE RATE IT MORE PLAUSIBLE THAN HAVING AN ARMED
TEAM ROW OUT FROM JOUNIEH TO SEIZE A GREEK OCEAN VESSEL WITH
19 CREWMEMBERS FOR LL 200,000 RANSOM, WHICH HAPPENED LAST
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WEEK). SINCE THE SEARCH FOR CARETAKER SERVICES EXCEEDED
DEMAND FOR CASH, NET LIQUIDITY IN US BANKS INCREASED THROUGH
THE CRISIS PERIOD.

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4. LOAN BUSINESS, DEPRESSED SINCE 1976, IS MORIBUND. BANK CONFIDENCE HAS DECLINED WITH SECURITY BREAKDOWN, AND FACT THAT FEW CUSTOMERS HAVE BEEN ABLE TO PRODUCE OR SELL AND NONE HAVE BEEN ABLE TO IMPORT BY SEA SINCE JULY 1 LEADS BANKS TO ASSUME THAT ANY LARGE REQUEST FOR "OPERATING FUNDS" IS A DISGUISED ATTEMPT TO MOVE CASH OUT OF LEBANON. AS FOR LOANS OUTSTANDING, LEBANESE HAVE HABIT OF OMITTING SCHEDULED REPAYMENTS IN TIMES OF CRISIS. THIS PRACTICE PRODUCES FLARED NOSTRILS AMONG EVEN THE MOST DISCREET OF OUR WELL-TAILORED BANKER FRIENDS, AND UNVEILED REFERENCES TO CANINE DESCENT FROM OTHERS.

5. BEIRUT'S "WALL STREET" (RIAD SOLH ST.) SURVIVED THE 1975-76 FIGHTING NEARLY INTACT, THE IMPORTANT EXCEPTION BEING THE VAULTS OF BRITISH BANK OF THE MIDDLE EAST. SHELLING AND SNIPER FIRE DURING LATEST ROUND SHUT DOWN ENTIRE LENGTH OF STREET FROM JULY 2 TO 18, PARALYZING BANKS SUCH AS CHEMICAL OF NEW YORK THAT HAD NEITHER BRANCH NOR EMERGENCY OFFICES AS LIMITED OFFICIAL USE

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SUBSTITUTES. CHECK CLEARING OPERATIONS OF CENTRAL BANK CEASED, AS DID POSTAL SERVICE, UNTIL JULY 18. CLOSURE OF RIAD SOLH HAS BADLY IMPRESSED BANKERS. AS ONE PUT IT, "THIS STREET IS THE SYMBOL OF LEBANESE CAPITALISM. THAT IT SURVIVED THE WAR PERMITTED THE BANKING REVIVAL OF 1977 BECAUSE, IF NOT HALLOWED GROUND, IT WAS AT LEAST PROOF THAT MONEY COULD HOLD THE DESTRUCTION AT BAY. THESE PAST TWO WEEKS THERE WASN'T AN ARMORED VEHICLE, A CAR, OR EVEN A COP ON THE STREET TO SHOW THE GOVERNMENT'S CONSIDERATION." THE STATEMENT IS NOT FALSE.

6. COMMENT: IN SIMPLE TERMS, LEBANON HAS WITNESSED TWO WEEKS OF ECONOMIC PARTITION THIS MONTH. THROUGH INGENUITY AND MUTUAL COOPERATION, BANKS IN THE EAST SERVED CUSTOMERS' CASH NEEDS WITHOUT CENTRAL BANK SUPPORT. A REGARD FOR THEIR PROFESSIONAL REPUTATIONS IN THE MIDDLE EAST AS A WHOLE WILL PREVENT US BANKS FROM CUTTING AND RUNNING, BUT MOST OF THEM RATE AS SEVERE THIS LATEST SETBACK TO BEIRUT'S FUTURE AS A

REGIONAL BANKING CENTER, AND WITH THE DOMESTIC BUSINESS
TURNING SOUR, THEY SEE LESS REASON THAN EVER TO CONTINUE.
SOME ARE UNDER PRESSURE FROM NEW YORK TO WITHDRAW EXPATRIATES
AND GO DORMANT NOW.

DECONTROL 7/30/80. PARKER

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